

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
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FM AMEMBASSY ROME
TO SECSTATE WASHDC 0025
TREASURY DEPT WASHDC
INFO AMCONSUL FLORENCE
AMCONSUL GENOA
AMCONSUL MILAN
AMCONSUL NAPLES
AMCONSUL PALERMO
AMCONSUL TRIESTE
AMCONSUL TURIN

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E.O. 11652: N/A
TAGS: EFIN, ELAB, EGEN, IT
SUBJECT: CONFINDUSTRIA PRESCRIBES 4.5 PERCENT GROWTH FOR 1978

1. AS THE NEW YEAR BEGINS, IT IS APPARENT THAT
THERE IS AN OPEN SEASON FOR PRESCRIPTIONS
FOR THE ITALIAN ECONOMY. CONFINDUSTRIA, THE CONFED-
ERATION OF INDUSTRIES, HEADED BY FORMER BANK OF
ITALY GOVERNOR GUIDO CARLI, HAS EAGERLY ANSWERED
THE CALL. ITS "OPERATION DEVELOPMENT," WHICH
WAS ORIGINALLY PRESENTED TO THE LABOR UNION CONFEDERA-
TION IN OCTOBER, HAS SINCE BEEN UPDATED.

2. THE UNDERLYING THESIS OF CONFINDUSTRIA'S PRESCRIP-
TION IS THAT ITALY HAS A "NATURAL" GROWTH RATE OF 3
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PERCENT WHICH MAINTAINS CONSTANT LEVEL OF EMPLOYMENT
AND BALANCE OF PAYMENTS EQUILIBRIUM. INFLATION
IS THE RESULT OF EXCESSIVE PUBLIC SECTOR DEFICITS
AND EXCESSIVE RISES IN UNIT LABOR COSTS. ACCORDING
TO CONFINDUSTRIA, TO MOVE OFF THIS DEAD CENTER,
GROWTH RATE MUST BE ACCELERATED IN ORDER TO CREATE
NEW JOBS FOR THE EXPANDING WORK FORCE. OPERATION

DEVELOPMENT ASSERTS THAT A 4.5 PERCENT GROWTH RATE WILL STIMULATE THE CREATION OF 100,000 NEW JOBS AT THE COST OF A SMALL BALANCE OF PAYMENTS DEFICIT.

3. IN ORDER TO OBTAIN AN INCREASE IN THE GROWTH RATE FROM THE GOVERNMENT'S FORECAST 3 PERCENT TO CONFINDUSTRIA'S RECOMMENDED 4.5 PERCENT, THE PRESCRIPTION CALLS FOR THE GOVERNMENT TO: (A) STIMULATE THE CONSTRUCTION INDUSTRY WHICH AFFECTS 30 SECTORS IN THE ITALIAN ECONOMY, (B) OPERATE MONETARY POLICY TO BRING PRIME RATE DOWN TO SAME AS RATE OF INFLATION (ESTIMATED AT 12 PERCENT), (C) PERMIT DOMESTIC CREDIT TO INCREASE ABOVE THE PRESENT TARGET LEVEL OF 34,000 BILLION LIRE BY THE MAGNITUDE OF THE CURRENT ACCOUNT SWING (I.E., FROM PLUS 2,000 BILLION TO MINUS 1,000 BILLION, OR 3,000 BILLION LIRE), (D) RESUBMIT ITS PROPOSAL TO PROVIDE TAX BENEFITS FOR NEW EQUITY INVESTMENT, (E) PROVIDE ASSISTANCE TO FIRMS IN FINANCIAL DIFFICULTY WHICH ARE NEVERTHELESS SALVAGEABLE, (F) ELIMINATE ADMINISTRATIVE CONSTRAINTS SUCH AS PRICE CONTROLS WHICH ADVERSELY AFFECT SECTORS AND FIRMS IN DIFFICULTIES, (G) CONTINUE TO BEAR EMPLOYER HEALTH INSURANCE CONTRIBUTIONS WHICH WERE SHOULDERED IN EARLY 1977, AND (H) RAISE THE CEILING ON EXPORT CREDIT. FINALLY, THE ANTICIPATED PUBLIC SECTOR DEFICIT SHOULD BE PRUNED BACK TO THE INITIAL GOVERNMENT TARGET OF 19,000 BILLION LIRE BY MASSIVE LIMITED OFFICIAL USE

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TAX AND TARIFF INCREASES.

4. THE LABOR UNIONS FOR THEIR PART, ACCORDING TO CONFINDUSTRIA, WOULD NEED TO: (A) MAKE SOME EFFORT TO HOLD RISES IN UNIT LABOR COSTS TO THE RATE OF INFLATION, (B) LOOK FOR WAYS TO APPLY THE UNION/INDUSTRY AGREEMENT OF JANUARY 1977 TO PERMIT A MORE RAPID EXPANSION OF PRODUCTIVITY, (C) PERMIT ALL GAINS IN PRODUCTIVITY TO BE UTILIZED IN INITIATIVES WHICH WILL INCREASE EMPLOYMENT, (D) SEEK WAYS TO INCREASE MOBILITY IN ORDER TO PERMIT A GROWTH OF JOBS, (E) ADOPT UNION POLICY WHICH WILL PERMIT SECTORS AND FIRMS TO OVERCOME THEIR DIFFICULTIES AND, (F) PROCEED WITH DEVELOPING PROGRAMS FOR TRAINING YOUTHS AND RETRAINING WORKERS AFFECTED BY THE PROCESS OF INDUSTRIAL RECONVERSION AND RESTRUCTURING.

5. CONFINDUSTRIA POINTS OUT THAT ITS PLAN IS NOT FUNDAMENTALLY DIFFERENT FROM THE GOVERNMENT'S PLAN PRESENTED AT THE END OF SEPTEMBER 1977 EXCEPT THAT THE EMPHASIS IS ON SPEEDING UP THE ECONOMY IN ORDER TO CREATE MORE JOBS. THE FORMULA ADVANCED FOR

ACCOMPLISHING THIS IS PREDICATED ON THE ASSERTION THAT "IT HAS BEEN AUTHORITATIVELY WHOWN THAT A RATE OF GROWTH OF 4.5 PERCENT CAN PERMIT A CONTAINMENT OF A BALANCE OF PAYMENTS DEFICIT IN THE ORDER OF 1,000 BILLION LIRE (ABOUT \$1.2 BILLION), AND THAT A DEFICIT OF THAT SIZE CAN BE FINANCED FROM FOREIGN SOURCES WITHOUT DIFFICULTY. ALSO, CAREFUL TIMING ON THE PART OF THE GOVERNMENT IS CALLED FOR TO FIRST STIMULATE THE CONSTRUCTION INDUSTRY AND ACCELERATE INVENTORY RESTOCKING AND ONLY AFTER PRODUCTION HAS REACHED A GROWTH RATE OF 4.5 PERCENT TO PRUNE THE DEFICIT BY MASSIVE TARIFF AND TAX MEASURES AND PERMIT CREDIT TO EXPAND FOR INVESTMENT.

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6. COMMENT. UNFORTUNATELY, THE CONFINDUSTRIA PRESCRIPTION FAILS TO EXPLAIN HOW "FINE TUNING" CAN BE MADE TO WORK ANY BETTER NOW THAN IN THE PAST. IT SEEMS TO ASSUME THAT INDUSTRY, LABOR AND GOVERNMENT CAN COOPERATE IN A KIND OF A SOCIAL CONTRACT. LABOR LEADERS, HOWEVER, WILL PROBABLY REJECT AND IGNORE CONFINDUSTRIA'S UPDATED PROPOSAL AS THEY DID THE ONE IN OCTOBER, WHICH THEY TERMED INFLATIONARY, UNFOCUSED SECTORALLY, TOO RELIANT ON UNPLANNED, SPONTANEOUS MARKET FORCES AND, ABOVE ALL, A PROVOCATIVE ATTEMPT TO REASSERT LOST MANAGEMENT POWER AT WORKER AND UNION EXPENSE. GIVEN THE POLITICAL CRISIS, THERE HAS BEEN NO OFFICIAL COMMENT.

7. ANOTHER MAJOR WEAKNESS OF THE PLAN IS THAT IT PROVIDES NO SOLUTONS OR ADVICE ON SOLVING THE STRUCTURAL PROBLEMS OF ITALIAN INDUSTRY.GARDNER

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